UNIVERSITY OF TORONTO

Financial Forecast to April 30, 2011

as at January 13, 2011

58716

University of Toronto
Forecast
Sensitivity analysis
For the fiscal year ending April 30, 2011
(millions of dollars)

Impact of LTCAP investment returns on Net Assets:

	0.0%	5.0%	6.0%	10.0%
Revenues	**2,236.6**	2,257.9	**2,262.1**	**2,279.2**
Expenses	2,348.7	2,348.7	2,348.7	2,348.7
Net loss	**(112.1)**	(90.8)	**(86.6)**	**(69.5)**
Investment gain on externally restricted endowments for preservation of capital	**(54.8)**	4.8	**16.7**	**64.3**
Externally endowed contributions	30.1	30.1	30.1	30.1
Net assets, beginning of year	1,800.0	1,800.0	1,800.0	1,800.0
Net assets, end of year	**1,663.2**	1,744.1	**1,760.2**	**1,824.9**
Net assets, end of year:				
Unrestricted deficit	(187.0)	(187.0)	(187.0)	(187.0)
Internally restricted	(6.7)	3.2	5.1	13.1
Investment in capital assets	453.8	453.8	453.8	453.8
Endowments	**1,403.1**	1,474.1	**1,488.3**	**1,545.0**
	1,663.2	1,744.1	**1,760.2**	**1,824.9**
Unrestricted deficit by fund:				
Operating fund	(2.2)	(2.2)	(2.2)	(2.2)
Ancillary operations	(112.1)	(112.1)	(112.1)	(112.1)
Capital fund	(72.7)	(72.7)	(72.7)	(72.7)
Restricted funds	0.0	0.0	0.0	0.0
	(187.0)	(187.0)	(187.0)	(187.0)

Introduction

This forecast projects the revenues, expenses, net loss and changes in net assets for the entire University across all four funds – operating, ancillary, capital, and restricted - including accounting estimates for pension and benefits expense and liability and for depreciation.

This forecast should be viewed as a reasonable ballpark estimate of the year-end results, given the resources and information available. It contains forward looking information, which is subject to risks and uncertainties that could cause the actual results to differ materially from those contained in this forecast.

At this time we have good information on some revenues and expenses but also have some significant uncertainties:

- Investment returns are, as always, uncertain and can vary from year to year

- We have interim information on divisionally controlled revenues and expenses, since divisions are currently reviewing their forecasts of their year-end results.

This forecast has been produced using a combination of forecasting methods, including projection to April 30, 2011 using current year-to-date actual figures and estimation based on trend analysis of prior years. It assumes:

- An increase in divisional reserves of $20 million.
- LTCAP investment return of 5.0%.
- Endowment payout of $65.8 million for 2010/11.

A sensitivity analysis on page 2 shows the impact of varying LTCAP investment return on net assets at 0.0%, 5.0%, 6.0% and 10.0% for the year.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF OPERATIONS AND CHANGES IN DEFICIT
For the fiscal year ending April 30, 2011
(with comparative figures at April 30, 2010)
(millions of dollars)

	Forecast					
	Operating fund	Ancillary Operations	Capital fund	Restricted funds	2011 Total	2010 Total
REVENUES						
Government grants for operations	705.3				705.3	674.8
Student fees	714.1	7.0	0.4		721.5	701.3
Donations		1.2	26.9	38.5	66.6	57.7
Government grants for restricted purposes		0.4	46.1	334.0	380.5	378.0
Contract research	3.5			14.2	17.7	21.1
Investment Income: Endowment	44.5			37.0	81.5	96.2
Other	30.5	0.2	0.5	0.5	31.7	28.7
Sales, services and sundry income	110.6	142.3	0.2		253.1	253.1
	1,608.5	151.1	74.1	424.2	2,257.9	2,210.9
EXPENSES						
Salaries and benefits	1,228.5	7.9		228.3	1,464.7	1,319.5
Materials and supplies	85.4	2.0		134.4	221.8	200.4
Scholarships, fellowships and bursaries	141.0				141.0	132.1
Amortization of capital assets	9.2	13.2	109.6	0.6	132.6	124.1
Cost of sales and services		85.6			85.6	80.5
Utilities	41.9	8.9			50.8	51.3
Repairs and maintenance	65.2	17.3	6.2	6.1	94.8	92.1
Travel and conferences	21.1			19.5	40.6	38.6
Interest	12.4	16.8		1.4	30.6	32.4
External contracted services	20.8			22.7	43.5	43.2
Telecommunications	11.1			1.2	12.3	12.1
Other	19.2		3.3	7.9	30.4	39.2
	1,655.8	151.7	119.1	422.1	2,348.7	2,165.5
Net income (loss)	(47.3)	(0.6)	(45.0)	2.1	(90.8)	45.4
Net transfer between funds	(17.4)	1.6	15.9	(0.1)	0.0	
Transfer of capital assets	(62.5)		62.5			
Unrealized gain on swap contracts		0.0	0.0		0.0	7.1
Change in internally restricted	127.1	(0.2)	6.3	0.0	133.2	42.6
Change in investment in capital assets		2.3	(42.9)		(40.6)	(29.4)
Transfers of donations to endowments				(1.3)	(1.3)	(1.4)
Transfer from internally restricted endowments				(0.7)	(0.7)	(19.1)
Net change in surplus/(deficit) for the year	(0.1)	3.1	(3.2)	(0.0)	(0.2)	45.2
Deficit, beginning of year	(2.1)	(115.2)	(69.5)		(186.8)	(232.0)
Deficit, end of year	(2.2)	(112.1)	(72.7)	(0.0)	(187.0)	(186.8)
Internally restricted	(97.1)	10.8	20.6	68.9	3.2	136.4
Investment in capital assets		114.5	339.3		453.8	413.2
Endowments				1,474.1	1,474.1	1,437.2
Net assets, end of year	(99.3)	13.2	287.2	1,543.0	1,744.1	1,800.0

Projected Changes in Operations and Deficit

This forecast projects a ($90.8 million) net loss at April 30, 2011 on projected revenues of $2.26 billion. This projected net loss includes:

($47.3 million) net loss for the operating fund.
($0.6 million) net loss for ancillary operations.
($45.0 million) net loss for the capital fund.
$2.1 million net gain for restricted funds.

This ($90.8 million) net loss represents a net deterioration of $136.2 million from last year's net income of $45.4 million. The main reasons are:

- $183.2 million increase in expenses, primarily due to the recording of increases in pension and other employee future benefit expense. Pension expense which is determined based on accounting rules, is calculated on an actuarial basis and reflects the cost of providing one year of pension service. The increase in pension expense is mainly caused by the amortization of some of the 2009 investment losses incurred on the pension assets and the reduction in the discount rate required to be used to calculate the value of pension liabilities. For more information on pensions, please see the paper *Ensuring a Sustainable Pension Plan for the University of Toronto* (January 31, 2011 Business Board).

- $50.7 million increase in government operating grant and student fee revenue.

- $11.7 million decrease in investment income, mainly as a result of the forecasted LTCAP investment return of 5.0% compared to last year's investment return of 14.7%. A change in the LTCAP investment return would impact this result (assuming everything else remains the same) as shown on page 2:

    - At 0.0 % return ($112.1 million) net loss.
    - At 5.0 % return ($90.8 million) net loss. – current forecast
    - At 6.0 % return ($86.6 million) net loss.
    - At 10.0 % return ($69.5 million) net loss.

Total revenues are expected to increase from $2.21 billion in 2010 to $2.26 billion, mainly due to increased revenues from student fees and government grants for operating purposes.

Total expenses are forecasted to increase from $2.17 billion in 2010 to $2.35 billion, mainly as a result of recording large increases in pension and other employee future benefit expense.

Projected Changes in Net Assets

This forecast projects a decrease in net assets from $1.8 billion at April 30, 2010 to $1.7 billion at April 30, 2011. This decrease of $55.9 million results from a projected net loss of ($90.8 million), partially offset by $30.1 million projected endowed donations and grants and an investment income on endowments of $4.8 million. Varying assumptions for the LTCAP investment gain would affect this result (assuming everything else remains the same) as shown on page 2:

- o At 0.0% return $1.66 billion net assets.
- o At 5.0% return $1.74 billion net assets. – current forecast
- o At 6.0% return $1.76 billion net assets.
- o At 10.0% return $1.83 billion net assets.

UNIVERSITY OF TORONTO
FORECASTED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING APRIL 30, 2011
(with comparative figures for the year ended April 30, 2010; in millions of dollars)

	Forecast					
	Unrestricted deficit $	**Internally restricted $**	**Investment in capital assets $**	**Endowments $**	**2011 Total $**	2010 Total $
Net assets, beginning of year	**(186.8)**	**136.4**	**413.2**	**1,437.2**	**1,800.0**	1,617.1
Net income (loss)	**(90.8)**				**(90.8)**	45.4
Net change in internally restricted	**133.2**	**(133.2)**				
Net change in investment in capital assets	**(40.6)**		**40.6**			
Transfer from internally restricted endowments - investment income	**(0.7)**			**0.7**		
Transfer to endowments						
- donations	**(1.6)**			**1.6**		
- matching funds	**0.3**			**(0.3)**		
Investment income (loss) on externally restricted endowments				**4.8**	**4.8**	106.7
Externally endowed contributions						
- donations				**26.0**	**26.0**	19.5
- grants and other				**4.1**	**4.1**	4.2
Unrealized loss on swap contracts	**0.0**				**0.0**	7.1
Net assets, end of year	**(187.0)**	**3.2**	**453.8**	**1,474.1**	**1,744.1**	1,800.0

The projected net assets of $1.74 billion are composed of the following, each of which is discussed further in the following sections:

($187.0 million) unrestricted net deficit
$3.2 million internally restricted net assets
$453.8 million investment in capital assets
$1.47 billion endowments

Projected Unrestricted Deficit:

This forecast projects a ($187.0 million) cumulative unrestricted deficit at April 30, 2011, as compared to last year's cumulative deficit of ($186.8 million), comprised as follows:

($2.2 million) operating fund unrestricted deficit
($112.1 million) ancillary operations unrestricted deficit
($72.7 million) capital fund deficit.

The **operating fund** cumulative deficit at April 30, 2011, is projected to be ($2.2 million) as compared to the budgeted cumulative deficit of ($35.7 million). The projected favorable variance of $33.5 million is due to:

$27.0 million projected increase in provincial operating grants on a budget of $606 million, due to the following:

- $18.2 million projected increase in undergraduate accessibility funding. The operating budget anticipated a funding discount of $16.3 million, which did not materialize.
- $11.3 million projected increase in undergraduate medicine top-up funding.
- $0.4 million projected increase due to higher than expected second entry nursing enrolments.
- ($2.9 million) projected decrease in the graduate expansion fund, due to lower than expected doctoral stream enrolments.

$4.9 million higher than projected investment income due to higher than budgeted investment returns.
$2.6 million higher than projected tuition fee revenue, primarily a result of higher than planned summer undergraduate enrolments.
$1.4 million expected positive variance on utilities expense due to surplus from lower gas and chilled water consumption.
($2.4 million) other expected negative variances.

Please note that if the LTCAP investment return is 0%, the operating fund cumulative deficit is still projected to be ($2.2 million) at April 30, 2011, as LTCAP returns only impact the endowment and internally restricted balances.

The **ancillary operations** cumulative deficit is projected to be ($112.1 million) at April 30, 2011, a projected deficit decrease of $3.1 million from 2010. The ancillary operations deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the deficit and the investment in capital assets.

The **capital fund** cumulative deficit is projected to be ($72.7 million) at April 30, 2011, as compared to ($69.5 million) at April 30, 2010. The capital fund deficit is primarily due to the internal financing of capital projects, which has the impact of increasing both the deficit and the investment in capital assets.

Projected Internally Restricted Net Assets:

Internally restricted net assets primarily reflect divisional reserves and departmental trust funds, offset by the unfunded portion of pension and employee benefits. Internally restricted net assets are currently projected to decline from $136.4 million to $3.2 million, mainly as a result of increasing employee future benefits expense as discussed on P.5 of this report.

Projected Investment in Capital Assets:

The $453.8 million investment in capital assets represents internal monies spent by the University on capital projects which will be reduced over time as the assets are amortized. This amount is projected to increase from $413.2 million in 2010 to $453.8 million at April 30, 2011 due to an increase in internal funding of capital assets partially offset by depreciation.

Projected Endowments:

This forecast projects endowments at $1.47 billion at April 30, 2011, an increase of $36.9 million from 2010, comprised as follows:

(millions of dollars)

	Forecasted Fiscal Year 2011	Fiscal Year 2010
Opening Balance, May 1	1,437.2	1,286.3
Investment income		
Preservation of capital for externally restricted endowments	4.8	106.7
Preservation of capital for internally restricted endowments	0.7	19.1
Available for payout	65.8	62.4
Less: endowment payout	(65.8)	(62.4)
Externally endowed contributions		
- donations	26.0	19.5
- grants and other	4.1	4.2
Transfer to endowments from		
- donations	1.6	1.4
- operating matching funds	(0.3)	0.0
Balance	1,474.1	1,437.2

This forecast assumes an LTCAP investment return on endowments of 5.0%. Varying assumptions for the LTCAP investment return would affect this result (assuming everything else remains the same):

- At 0.0% return — $1.40 billion endowments.
- At 5.0% return — $1.47 billion endowments. – current forecast
- At 6.0% return — $1.49 billion endowments.
- At 10.0% return — $1.55 billion endowments.